

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 EUR-12 ISO-00 CIAE-00 INR-07  
NSAE-00 PA-02 USIA-15 PRS-01 SP-02 COME-00 TRSE-00  
OMB-01 STR-04 ITC-01 L-03 AID-05 CEA-01 EPG-02  
/074 W

-----040230Z 113074 /15

R 031520Z MAY 77

FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC 1396  
INFO AMEMBASSY LONDON  
USDA WASHDC  
AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

UNCLAS BRASILIA 3499

E.O. 11652: N/A

TAGS: EAGR, EPAP, ETRD, BR

SUBJECT: DOMESTIC DISCONTENT OVER PROHIBITION ON EXPORTATION OF  
TYPE 7 AND 8 COFFEE; SOME CONCERN OVER DECLINING WORLD  
COFFEE PRICES.

REF: BRASILIA 3197 (NOTAL)

1. SUMMARY. BRAZILIAN PRESS REPORTS STRONG PRODUCER/  
EXPORTER DISCONTENT OVER IBC PROHIBITION OF EXPORTATION  
OF TYPE 7 AND 8 (LOWEST-QUALITY) COFFEE AND ESTABLISHMENT  
OF CR\$2,000 PER 60 KG. BAH DOMESTIC MARKET PRICE FOR THIS  
COFFEE. PRESS IS ALSO REPORTING SOME UNCERTAINTY IN  
EXPORT CIRCLES AS WORLD PRICES FALL TOWARD IBC MINIMUM  
EXPORT REGISTRATION PRICE. END SUMMARY:

2. THREE MAJOR NEWSPAPERS (O ESTADO DE SAO PAULO, APRIL 28;  
JORNAL DO BRASIL, APRIL 28; AND GAZETA MERCANTIL APRIL 27  
AND APRIL 28) HAVE RECENTLY FEATURED ARTICLES CONCERNING  
RISING COFSRE PRODUCER AND EXPORTER OPPOSITION TO THE  
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IBC PROHIBITION ON THE EXPORTATION OF TYPE 7 AND 8  
(LOWEST-QUALITY) COFFEE AND THE IBC ESTABLISHMENT OF  
A CR\$2,000 PER 60 KG BAH DOMESTIC PRICE FOR THIS COFFEE. PRO-  
DUCTION OF THIS COFFEE IS CONCENTRATED IN THE STATES OF  
SAO PAULO, MINAS GERAIS, RIO DE JANEIRO, AND ESPIRITO  
SANTO, AND PRODUCERS AND EXPORTERS IN THESE AREAS HAVE  
DEMANDED, BOTH DIRECTLY AND THROUGH THEIR STATE

GOVERNORS AND CONGRESSIONAL DEPUTIES, THE REVERSAL OF THESE IBC DECISIONS.

3. AT THE TIME THE IBC DECISION WAS TAKEN, TYPE 7 AND 8 COFFEE WAS SELLING ON THE DOMESTIC MARKET FOR CR\$3,000 PER 60 KG. BAG OR MORE, SO PRODUCERS AND EXPORTERS WITH STOCKS OF THESE COFFEES HAVE SUFFERED CONSIDERABLE INVENTORY LOSSES. GAZETA MERCANTIL (4-27) REPORTED THAT ONE OF THE ARGUMENTS BEING USED BY THE PRODUCERS AND EXPORTERS IS THAT THESE COFFEES "HAVE A GUARANTEED MARKET IN VARIOUS REGIONS OF THE WORLD SUCH AS AFRICA, LATIN AMERICA, AND THE UNITED STATES, AND IF IT IS SUBSTITUTED (DURING THE PERIOD OF THE IBC EXPORT PROHIBITION) THIS COULD RESULT IN THE (PERMANENT) LOSS OF THESE MARKETS."

4. COFFEE MIDDLEMEN ARE REPORTED BY ESTADO DE SAO PAULO AS NATURALLY RELUCTANT TO SELL THEIR STOCKS TO DOMESTIC ROASTERS AT THE LOW DOMESTIC PRICE, BUT IF THEY HOLD ON TO THEIR STOCKS AND REFUSE TO SELL TO THE ROASTERS IN HOPES OF A CHANGE IN IBC POLICY WHICH DOES NOT MATERIALIZE, THEY FACE THE PROSPECT OF THE FORCED SALE OF THEIR STOCKS UNDER GOB "LEI DELEGADA NO. 4" (LEI DELEGADA NO. 4 EMPOWERS TO THE GOB TO INTERVENE IN THE NATIONAL ECONOMY TO ASSURE THE ADEQUATE DISTRIBUTION OF BASIC CONSUMER ITEMS TO THE POPULACE.)

5. THERE IS ALSO INCREASING CONCERN OVER THE FALLING WORLD MARKET PRICE OF COFFEE. WHILE A DIRECT COMPARISON UNCLASSIFIED

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BETWEEN LONDON AND NEW YORK COFFEE PRICES AND BRAZILIAN COFFEE PRICES CANNOT BE MADE, IF THESE DECLINES CONTINUE AT THEIR CURRENT RATE, IN A WEEK OR TWO BRAZILIAN COFFEE PRICES MAY FALL BELOW THE US\$3/LB IBC MINIMUM REGISTRATION PRICE. THE IBC HAS MADE AS YET NO PUBLIC STATEMENTS REGARDING POSSIBLE CHANGES IN THE MINIMUM REGISTRATION PRICE OR THE EXPORT TAX ("CONFISCO CAMBIAL"). REACTION OF THE TRADE IS ONE OF SURPRISE, AS THE IBC RECENTLY TOOK SEVERAL MEASURES, PRINCIPALLY THE PROHIBITION OF TYPE 7 AND 8 COFFE EXPORTS, WHICH DIRECTLY REDUCED THE AMOUNT OF BRAZILIAN COFFE AVAILABLE FOR EXPORT AND WHICH THEREFORE SHOULD HAVE PUT UPWARD PRESSURE ON COFFE PRICES. THE CENTRO DO COMERCIO DO CAFE IN RIO CALLED THE APRIL 27 COFFEE MARKET "PARALYZED" (REPORTED BY ESTADO DE SAO PAULO AND CONFIRMED BY COMMENTS MADE BY RIO COFFE EXPORTER TO CONGEN OFFICER), BUT A HIGHLY-PLACED SANTOS COFFEE SOURCE WAS REPORTED AS SAYING THAT THE CURRENT PRICE

DECLINES WERE ONLY TEMPORARY AND WOULD REVERSE THEM-  
SELVES "AS SOON AS THE WORLD WOKE UP AND REMEMBERED  
THAT BRAZIL WILL NOT BE ABLE TO EXPORT 12 MILLION  
BAGS OF COFFE THIS YEAR (GAZETA MERCANTIL, APRIL 29)"  
CRIMMINS

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Review Markings:**  
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